

Message Text

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PAGE 01 STATE 211678

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ORIGIN ARA-20

INFO OCT-01 ISO-00 H-03 TRSE-00 EB-11 L-03 COME-00 RSC-01

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DRAFTED BY ARA/ECP:WFALKNER:MMW

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H - WRICHARDSON

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FM SECSTATE WASHDC

TO AMEMBASSY SAN SALVADOR

AMCONSUL CURACAO

INFO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

USCINCSO

AMCONSUL PARAMARIBO

AMCONSUL BELIZE

AMCONSUL CURACAO

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INFORM CONSULS

E.O. 11652:11652: N/A

TAGS: EIND, EINV, PFOR, US, XK, XL, XR

SUBJECT: POSSIBLE ELIMINATION OF SEC. 921 OF THE INTERNAL
REVENUE CODE

REF: SAN SALVADOR 3594; CURACAO 458 NOTAL

1. REFTELS RAISED THE ISSUE OF PROPOSED CHANGES IN THE US
INTERNAL REVENUE CODE AFFECTING WESTERN HEMISPHERE TRADE
CORPORATIONS (WHTC). AT LEAST ONE MULTINATIONAL U.S. FIRM
HAS INDICATED THAT A BILL BEFORE THE CONGRESS WHICH WOULD
ELIMINATE THE SPECIAL INCOME TAX BENEFITS ACCRUING TO WHTCS
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PAGE 02 STATE 211678

MAY CAUSE THAT FIRM TO CEASE OPERATIONS IN CERTAIN

COUNTRIES. THE FOLLOWING IS PROVIDED TO POSTS IN THE EVENT THEY ARE APPROACHED FOR INFORMATION ON THE STATUS OF THE BILL.

2. THE HOUSE WAYS AND MEANS COMMITTEE IS AT PRESENT MARKING UP AN OMNIBUS TAX REFORM BILL DRAFT. SECTION 362 OF THE COMMITTEE DRAFT WOULD REQUIRE THE GRADUAL ELIMINATION OVER A FOUR YEAR PERIOD ENDING IN 1978, OF SPECIAL U.S. CORPORATE INCOME TAX DEDUCTIONS NOW ACCORDED THE WHTCS. THE SECTION DEALING WITH THE WHTCS HAS BEEN MARKED-UP. PASSAGE OF THE BILL THROUGH BOTH HOUSES OF CONGRESS IS NOT EXPECTED DURING THE CURRENT SESSION, BUT SUPPORT FOR THIS MEASURE IS EXPECTED IN THE NEXT SESSION. FOR THE PRESENT, IT APPEARS THAT THE WHTCS WILL CONTINUE TO RECEIVE THEIR SPECIAL TAX

CONSIDERATION.

3. WHTCS HAVE A HISTORY EXTENDING BACK TO THE EARLY 1940S. IN 1954 SECTION 921 OF U.S. CODE TITLE 26 WAS ENACTED TO PROVIDE FOR WHTCS A FOURTEEN PERCENTAGE POINTS TAX REDUCTION IN THE U.S. TAX WHICH WOULD OTHERWISE BE DUE. TO QUALIFY, A CORPORATION MUST MEET FOUR REQUIREMENTS: A) WITH A FEW EXCEPTIONS, ITS BUSINESS MUST BE CONDUCTED IN THE WESTERN HEMISPHERE; B) NINETY PERCENT OF ITS INCOME MUST BE DERIVED FROM THE ACTIVE CONDUCT OF A TRADE OR BUSINESS; C) AT LEAST NINETY-FIVE PERCENT OF ITS GROSS INCOME MUST BE OBTAINED FROM OUTSIDE THE US FOR THE THREE YEAR PERIOD IMMEDIATELY PRECEDING THE CLOSE OF THE TAXABLE YEAR; AND D) IT MUST BE CHARTERED IN THE US.

4. THE DEPARTMENT HAS NOT YET BEEN ABLE TO OBTAIN FIGURES SHOWING EITHER THE NUMBER OF WHTCS IN EXISTENCE OR THEIR GEOGRAPHIC DISTRIBUTION. IN GENERAL, MOST ARE BELIEVED TO BE SMALL TO MEDIUM IN SIZE, OFTEN WORKING IN CONNECTION WITH EXPORT OPERATIONS. ONE INFORMAL ESTIMATE PLACES THEIR NUMBER AT ABOUT SEVEN HUNDRED. KISSINGER

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